

CHILDREN'S SERVICES COORDINATING COMMITTEE
Bismarck, North Dakota

Audit Report for the
Biennium Ended June 30, 2001
Client Code 324

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TRANSMITTAL LETTER

February 26, 2002

Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

Kathy Keiser, Board Chairman

We are pleased to submit this audit of the Children's Services Coordinating Committee for the biennium ended June 30, 2001. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the State of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Michael W. Schmitcke and Cindi Pedersen, CPA was the Audit Supervisor. Inquiries or comments relating to this audit may be directed to the Audit Supervisor by calling (701) 328-4743. We wish to express our appreciation to Board Chair, Kathy Keiser and Children's Services Administrative Assistant, Karla Mittleider for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

EXECUTIVE SUMMARY

Introduction

The Children's Services Coordinating Committee (CSCC) plans for and coordinates delivery of services to children and adolescents who are abused, neglected, emotionally disturbed, mentally ill, medically disabled, runaways, homeless, deprived, school dropouts, school-age parents, chemical or alcohol abusers, unruly, or delinquent. They also foster prevention strategies and early intervention to strengthen families in their capacity to parent children and coordinate, sponsor, or oversee interagency or intergovernmental projects and programs for children, or projects and programs that require the participation of both governmental and private entities. The State CSCC accomplishes these duties by distributing grant funds appropriated or authorized by the legislative assembly to Regional and Tribal CSCC's.

LAFRC Responses

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

1. Were expenditures made in accordance with legislative appropriations and other state fiscal requirements and restrictions?

No. The Children's Services Coordinating Committee overspent one appropriation line (see page 11).

2. Were revenues accounted for properly?
--

Yes.

3. Were there adequate financial controls and procedures?

Yes.

4. Was internal control adequate and functioning effectively?

Yes.

5. Do financial records and reports reconcile with state fiscal offices?
--

Yes.

6. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our findings addressing “noncompliance with appropriation laws” and “noncompliance with timing requirement for funds distribution” (see page 11), the Children’s Services Coordinating Committee was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

7. Was there any indication of fraud or dishonesty?

No.

8. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

9. Has action been taken on findings and recommendations included in prior audit reports?

No. See “Status of Prior Recommendations” (page 12).

10. Were all activities of the agency encompassed within appropriations of specific amounts?

Yes.

11. Has the agency or institution implemented the Statewide Accounting and Management Information System (SAMIS), including the cost allocation system?

Yes. The Children’s Services Coordinating Committee is using the SAMIS system, but is not using the cost allocation system because the Children’s Services Coordinating Committee does not receive any federal funds resulting from indirect costs.

12. Has the agency developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compared (on at least a quarterly basis) actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues?

Yes.

BACKGROUND INFORMATION

The mission of the Children's Services Coordinating committee is to strengthen families in their ability to parent children and communities in their capacity to support families by planning for and coordinating delivery of services to children and adolescents who are at risk, fostering preventive strategies, and early intervention. Kathy Keiser, Board Chairman, heads the Children's Services Coordinating Committee.

To accomplish their mission, the Children's Services Coordinating Committee may plan for and coordinate delivery of services to children and adolescents who need the services, as well as foster primary prevention ideas and strategies and present those ideas and strategies to the Regional and Tribal Children's Services Coordinating Committees. Also, the Children's Services Coordinating Committee distributes grant funds to the twelve Regional and Tribal Children's Services Coordinating Committees. The Regional and Tribal Children's Services Coordinating Committees are strategically located across the State of North Dakota. These committees are composed of community volunteers. The Regional and Tribal Children's Services Coordinating Committees are responsible for the recruitment of local organizations to become participating entities, for ensuring that administrative funding and reimbursements are for only allowable costs, and for the distribution of funds to the participating entities.

The Children's Services Coordinating Committee's final budget for the 1999-2001 biennium totals \$8.4 million. This represents a 10% percent increase from the 1997-99 budget. The Children's Services Coordinating Committee's budget consists of federal funds passed through the Department of Human Services and a private grant.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit of the Children's Services Coordinating Committee for the biennium ended June 30, 2001 were to provide reliable, audited financial statements and to answer the following questions:

1. *What are the most important areas of the Children's Services Coordinating Committee's operations and is internal control adequate in these areas?*
2. *What are the significant and high-risk areas of legislative intent applicable to the Children's Services Coordinating Committee and are they in compliance with these laws?*
3. *Are there areas of agency operations where we can help to improve efficiency or effectiveness?*

This audit of the Children's Services Coordinating Committee for the biennium ended June 30, 2001 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

- *Prepared condensed financial statements from the data used in the State's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.*
- *Performed detailed analytical procedures for expenditures and receipts.*
- *Tested samples of expenditures.*
- *Reviewed prior year audit workpapers.*

- *Interviewed appropriate agency personnel.*
- *Reviewed agency written plans and applicable manuals.*
- *Observed agency processes and procedures.*
- *Reviewed North Dakota Century Code Chapter 54-56 and 1999 Session Laws.*
- *Tested samples of grant disbursements and interdepartmental billings used to receipt money from other agencies.*
- *Searched for recent studies or reports relating to the Children's Services Coordinating Committee.*
- *Conducted a general and pervasive control review on the information systems used by the Children's Services Coordinating Committee.*

DISCUSSION AND ANALYSIS

The accompanying financial statements have been prepared in a condensed form to present the Children's Services Coordinating Committee's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. All fund types and account groups are condensed and reported in one column. Accordingly, the accompanying summary financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2001, operations of the Children's Services Coordinating Committee were supported by federal funds received through the Department of Human Services and appropriated through special fund expense authority.

Financial Summary

Revenues consisted primarily of federal funds received by the Department of Human Services and deposited into the Children's Services Coordinating Committee operating fund through a request for reimbursement process. Total revenues were \$5,607,928 for the year ended June 30, 2001 as compared to \$3,787,826 for the year ended June 30, 2000. The increase in total revenues was due to an increase in the expenditures at the Regional and Tribal Children's Services Coordinating Committee offices, which are reimbursed through the Department of Human Services.

Total expenditures for the Children's Services Coordinating Committee were \$4,943,770 for the year ended June 30, 2001 as compared to \$4,114,804 for the prior year. The increase in total expenditures for the audited period was primarily due to grant expenditures. All other expenditures remained fairly constant.

The distribution of grants accounted for approximately 99% of total expenditures during the fiscal years reviewed. The distribution of grants increased by approximately 20% for June 30, 2001 as compared to June 30, 2000. The increase is attributable to an increased number of claims for reimbursement submitted to the Children's Services Coordinating Committee by the twelve Regional and Tribal Children's Services Coordinating Committees.

Analysis of Significant Changes in Operations

The Children's Services Coordinating Committee received an additional three-year grant of \$670,000. The purpose of the Robert Wood Johnson Foundation Grant is to design an outreach program aimed at identification and enrollment of eligible children into existing health coverage programs (CHIP/Healthy Steps and Medicaid).

Analysis of Significant Variances Between Final Budgeted and Actual Amounts

The Children's Services Coordinating Committee overspent their operating expenses appropriation line item and their grants appropriation line item (which is later discussed in the Noncompliance With Appropriation Laws).

CONDENSED FINANCIAL STATEMENTS

Statement of Assets, Liabilities, and Fund Equity

	June 30, 2001	June 30, 2000
<u>ASSETS AND OTHER DEBITS:</u>		
Cash and Cash Equivalents	\$ 215,964	\$ 542,082
Due From Other State Funds	3,602,846	1,281,197
Fixed Assets		4,235
Amount to be Provided for Retirement of Long-Term Debt	4,199	4,078
Total Assets and Other Debits	<u>\$ 3,823,010</u>	<u>\$ 1,831,592</u>
<u>LIABILITIES:</u>		
Accounts Payable	\$ 1,754,580	\$ 445,354
Due to Other State Funds	22,312	306
Accrued Payroll	3,026	2,885
Compensated Absences Payable	4,199	4,078
Total Liabilities	<u>\$ 1,784,118</u>	<u>\$ 452,623</u>
<u>EQUITY AND OTHER CREDITS:</u>		
Investment in General Fixed Assets		\$ 4,235
Fund Equity - Unreserved	<u>\$ 2,038,892</u>	<u>1,374,735</u>
Total Equity and Other Credits	<u>\$ 2,038,892</u>	<u>\$ 1,378,970</u>
Total Liabilities, Equity and Other Credits	<u>\$ 3,823,010</u>	<u>\$ 1,831,592</u>

Statement of Revenues and Expenditures

	Fiscal Years Ended	
	June 30, 2001	June 30, 2000
<u>REVENUE AND OTHER SOURCES:</u>		
Robert Wood Johnson Grant	\$ 85,720	\$ 335,309
Operating Transfers In	5,522,208	3,452,517
Total Revenues and Other Sources	<u>\$ 5,607,928</u>	<u>\$ 3,787,826</u>
<u>EXPENDITURES AND OTHER USES:</u>		
Salaries and Benefits	\$ 35,811	\$ 34,770
Operating Expenditures	32,514	30,662
Grant Expenditures	4,875,445	4,049,371
Total Expenditures and Other Uses	<u>\$ 4,943,770</u>	<u>\$ 4,114,804</u>

Statement of Appropriations

For The Biennium Ended June 30, 2001

	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Appropriation</u>
Salaries and Benefits	\$ 70,161	\$ 500	\$ 70,661	\$ 70,582	\$ 79
Operating Expenses	57,339	6,500	63,839	63,176	663
Grants	6,622,500	1,634,740	8,257,240	8,924,816	(667,576)
Totals	<u>\$ 6,750,000</u>	<u>\$ 1,641,740</u>	<u>\$ 8,391,740</u>	<u>\$ 9,058,574</u>	<u>\$ (666,834)</u>

Expenditures by Source:

General Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Other Funds	6,750,000	1,641,740	8,391,740	9,058,574	(666,834)
Totals	<u>\$ 6,750,000</u>	<u>\$ 1,641,740</u>	<u>\$ 8,391,740</u>	<u>\$ 9,058,574</u>	<u>\$ (666,834)</u>

APPROPRIATION ADJUSTMENTS:

The \$500 transfer from the operating line item to the salaries and benefits line item was made in accordance with Senate Bill 2015 of the 1999 Session Laws. This law ensured all agencies would have sufficient funds to meet the required \$35 minimum salary increase.

The Emergency Commission approved a \$7,000 increase to the operating line item. The \$7,000 increase was reduced by the \$500 transferred to the salaries line item mentioned above. The increase was needed to cover additional operating expenses incurred by the Children's Services Coordinating Committee as a result of a grant from the Robert Wood Johnson Foundation.

The Emergency Commission approved the \$1,634,740 increase to the grants line item. The increase was to accept pass through funds from the Department of Human Services for Regional and Tribal Children's Services Coordinating Committees.

INTERNAL CONTROL

In our audit for the biennium ended June 30, 2001, we identified the following areas of the Children's Services Coordinating Committee's internal control as being the most important:

- *Controls surrounding the processing of revenues.*
- *Controls surrounding the processing of expenditures.*
- *Controls relating to compliance with legislative intent.*
- *Controls surrounding the computer-based financial information system.*

We gained an understanding of the management controls surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. Our consideration of the internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operation that we consider to be material weaknesses.

COMPLIANCE WITH LEGISLATIVE INTENT

In our audit for the biennium ended June 30, 2001, we identified and tested Children's Services Coordinating Committee's (CSCC) compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- *Grants properly provided to the Native American Alcohol and Drug Abuse Education Program (House Bill 1014, Section 2, 1999 Session Laws).*
- *Spending of additional income approved by the Emergency Commission (House Bill 1014, Section 3, 1999 Session Laws).*
- *Federal funds for administrative cost reimbursement properly allocated (House Bill 1014, Section 5, 1999 Session Laws).*
- *Duties of the CSCC (North Dakota Century Code 54-56-03).*
- *Designation of up to twelve Regional or Tribal organizations (North Dakota Century Code 54-56-04).*
- *Unobligated operating fund balance not maintained (North Dakota Century Code 54-56-07).*
- *Proper use of the State Treasurer [State Constitution, Article X, Section 12.].*
- *Appropriations and related transfers (North Dakota Session Laws Chapter 14).*
- *Compliance with OMB's Purchasing Procedures Manual.*
- *Travel-related expenditures are made in accordance with OMB Policy and state statute.*
- *Blanket Bond Coverage of employees (NDCC 26.1-21-08).*
- *Fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests and lease analysis requirements.*
- *Payroll related laws including statutory salaries for applicable appointed positions, and certification of payroll.*

- *Information systems related legislation including appointment of an information technology coordinator and a properly approved information technology plan.*

The results of our tests disclosed three instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below.

Noncompliance With Appropriation Laws

The Children's Services Coordinating Committee is not in compliance with section 54-16-03 of the North Dakota Century Code (NDCC), which states that it is unlawful to spend more than what is appropriated. The agency overspent the amounts appropriated for the grants line item.

During testing it was noted that several grant expenditures that were for costs incurred during the 1999-2001 biennium were applied to the 2001-2003 biennium. When these costs of \$1,094,551 are properly applied to the 1999-2001 biennium, the agency has exceeded the grants appropriation by \$667,576.

Recommendation:

We recommend the Children's Services Coordinating Committee comply with section 54-16-03 of the NDCC by not overspending their appropriation.

Agency Response:

The Children's Services Coordinating Committee has adopted a refinancing manual which includes timelines for the filing of refinancing claims by the local and state Children's Services Coordinating Committees. This will allow the claims to be applied to the appropriate biennium and will also allow for more accurate estimates of revenue and expenditures.

Noncompliance With Timing Requirement for Funds Distribution

The Children's Service Coordinating Committee distributes its grant funds appropriated or authorized by the legislative assembly to children's service organizations and programs. Section 54-56-03 of the North Dakota Century Code (NDCC) specifies that the Children's Services Coordinating Committee distribute the grant funds due to the Regional and Tribal Children's Services Coordinating Committees within five days of receiving the funds. During our review of 12 distributions there was one instance where the grant money was not distributed to a Children's Services Coordinating Committee within the five days specified by NDCC 54-56-03.

Recommendation:

We recommend that the Children's Services Coordinating Committee take appropriate action to comply with Section 54-56-03 of the North Dakota Century Code by distributing funds to the Regional or Tribal Committees within five days of receiving the funds.

Agency Response:

The Children's Services Coordinating Committee agrees with the recommendation, indicating that the only time they cannot meet the requirements of NDCC 54-56-03 is when the employee or the board chair are absent for an extended period of time, leaving no one to prepare and/or approve the transactions. The Children's Services Coordinating Committee has authorized another board member to approve transactions when the chair is gone. The Children's Services Coordinating Committee, at their budget hearing, will also discuss changing the 5-day requirement to 20 days (the same as the local Children's Services Coordinating Committee's requirement).

OPERATIONS

This audit did not identify areas of the Children's Services Coordinating Committee's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

STATUS OF PRIOR AUDIT RECOMMENDATIONS

In our prior Children's Services Coordinating Committee audit of the biennium ended 6/30/99, we disclosed the following recommendation:

1. BACKGROUND

The Children's Service Coordinating Committee distributes its grant funds appropriated or authorized by the legislative assembly to children's service organizations and programs. Section 54-56-03 of the North Dakota Century Code (NDCC) specifies that the Children's Services Coordinating Committee distribute the grant funds due to the Regional and Tribal Children's Services Coordinating Committees within five days of receiving the funds. During our review we noted, on occasion, there were instances that the grants funds were not distributed to the Regional and Tribal Children's Services Coordinating Committees within the five days specified by NDCC 54-56-03.

RECOMMENDATION

We recommend that the Children's Services Coordinating Committee take appropriate action to comply with section 54-56-03 of the North Dakota Century Code by distributing funds to the Regional or Tribal Committees within five days of receiving the funds.

STATUS

Not implemented. See "Non Compliance with Timing Requirements for Funds Distribution" on (Page 11).